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C O N F I D E N T I A L SECTION 01 OF 03 KUWAIT 001259

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TAGS: [EINV](#) [EPET](#) [ENRG](#) [PGOV](#) [PREL](#) [KU](#)
SUBJECT: KUWAIT HALTS K-DOW PETROCHEMICAL VENTURE IN THE
FACE OF MP ATTACKS

Classified By: Charge d, Affaires, a.i. Alan Misenheimer for reasons 1.4
(b) and (d).

¶1. (C) Summary: Following the Government of Kuwait's December 28 decision to withdraw approval for the K-Dow joint venture between Kuwait's Petrochemical Industries Company (PIC) and Dow Chemical, PIC's Chair and Managing Director Maha Hussain told Econoffs that PIC will continue to seek approval for the deal from the GoK utilizing a provision in the contract that allows it to extend the deadline for closing the deal for up to six months. Hussain said PIC still believed the venture was an excellent opportunity for Kuwait and that the parliamentary criticism which preceded the GoK's decision to withdraw approval for the deal was politically motivated. She confirmed that the National Assembly had no legal authority to halt the project, and observed that the members of parliament who opposed the deal lacked a clear understanding of the project and that none of their objections had any merit. Nonetheless, PIC shows no sign of having a real plan of how to move forward. Hussain's brave words about continuing to pursue GoK approval appeared to signify more wishful thinking than real determination. Paragraph 7 outlines recent developments related to the K-Dow deal including Post advocacy efforts. End summary.

¶2. (C) On December 31, Econoffs met with Maha Hussain, Chair and MD of the Petrochemical Industries Company (PIC) and Yousef Al-Ateeqi, DMD Olefins to discuss Kuwait's December 28 decision to cancel the K-Dow deal and to ask about PIC's plans to move forward. Hussain said that PIC would be formally notifying Dow (as soon as December 31) that "it was unable to close" on the K-Dow joint venture with Dow on January 2, 2009, the date K-Dow was to begin operations. Hussain said PIC's intent would be to use a clause in the agreement that allowed the closing date to be extended by up to six months to try and persuade the GoK to change its position. She stressed that she still viewed the proposed JV as in the best interest of Kuwait.

¶3. (C) According to Hussain, there were several relevant clauses in the JV. The first allows both parties to extend the closing date by up to six months, in one month increments. This clause would allow both parties to address any potential regulatory issues or any potential issues with the ongoing operations of the assets, such as obtaining approval of existing JV participants. In addition, she noted either party could unilaterally extend the closing date "for cause" if there were government objections to the deal. She also said that press reports citing a USD 2.5 billion penalty for cancellation were incomplete. They did not apply if either company was required to cancel the deal due to government order. Hussain said, in PIC's view, the Cabinet order to halt the deal met the "for cause" requirement.

¶4. (C) Hussain and Ateeqi asserted that parliamentary opposition to the JV was politically motivated and that the opponents were unwilling to listen to the economic benefits of the deal. Hussain noted that PIC had originally calculated an expected annual return on investment of 10.9 percent over the life of the deal, taking into account the USD 9 billion that Kuwait was originally scheduled to pay. Ateeqi explained that, in response to the global financial crisis and economic downturn, the Kuwaitis had renegotiated the cost down to a net USD 6 billion (USD 7.5 billion with USD 1.5 billion returned). This actually increased the expected rate of return to over 12 percent to take into account the potential that the economic downturn would be longer and more severe than forecast. Hussain stressed that this would be an excellent long-term deal for Kuwait. In addition to the expected financial return on investment, she noted that this would marry Dow's technical expertise with Kuwait's natural resources and would fit into its plans to further expand "downstream." She also noted Dow's commitment to establish research and development facility in Kuwait, which would allow Kuwait to benefit from technology transfers from an industry leader. Hussain also stated that the Parliamentary claim that the Kuwait Petroleum Company was liquidating its financial assets at fire sale prices to fund the K-Dow venture were false. KPC had originally planned to liquidate some of its bonds to finance the deal, but given market conditions had found other sources of funding.

¶5. (SBU) In response to a question from Econoff, she noted that Kuwait's parliament did not have the legal right to authorize (or deny) capital expenditures or investments from any of the Kuwait Petroleum Corporation(KPC) subsidiaries.

KUWAIT 00001259 002 OF 003

This extended to not having the State Audit Bureau conduct any prior auditing of investments. The government's decision in this case was voluntary. She noted that parliament did have the authority to authorize the oil companies' operational expenditures. (Note: This tracks with what we have heard previously from other KPC sources. End Note.)

¶6. (C) Comment: Although Hussain stressed her intent to lobby the government to change its decision on the deal, it is not clear that PIC has a plan to go forward in the face of a determined GoK unwillingness to confront parliament. Both Hussain and Ateeqi still appeared shell shocked and) in contrast to their statements) unprepared for another bruising fight. They also did not appear to have a plan to address parliamentary opposition. They noted that KPC and its subsidiaries were considering approaching "some parliamentarians" in an effort to win allies, but did not appear convinced of the efficacy of this approach. "The opponents "have made up their minds and don't want to listen to our arguments." Both expressed some hope that current moves by some parliamentarians to investigate the reasons behind the GoK decision to cancel the deal could put pressure on parliamentary opponents, but only if the inquiry concluded its study quickly. Ultimately, however, they said it would take a government that is willing to stand up to Parliament for what is in Kuwait's best interest. Such a government is not/not in prospect. Hussain's brave words about continuing to pursue GoK approval had more the feeling of wishful thinking than determined commitment. End comment.

¶7. (SBU) Below is a brief chronology of recent events related to the K-Dow joint venture.

Early December - The first criticisms of the project appeared in the press as soon as the deal was announced. Press criticism typically featured condemnatory comments from a handful of MPs who describing the deal variously as "theft," "a crime," and a deal resulting in huge financial losses through sales of current holdings at depressed prices in order to meet PIC's \$6 billion cash contribution. Some MPs added threats to call the Prime Minister before parliament for a

"grilling" on the K-Dow issue. (Note: Similar calls for a grilling of the PM on the 4th refinery issue preceded the dissolution of government in early December. End note)

December 18) PIC Chair and MD Maha Hussain announced PIC,s willingness to meet with National Assembly to discuss the deal.

December 22 - Minister of Oil Mohammed Al-Olaim stated that the venture had been approved by "proper channels" and was of &strategic importance8 and that the government would proceed with it despite parliamentary opposition.

December 23) Dow contacted Ambassador (who was out of the country) and CDA requesting a conference call to discuss the ongoing debate about the deal. That day, Ambassador and CDA reached out to senior members of the GoK to express USG support for the deal. Post also recommended that Dow undertake a targeted PR campaign to stress the underlying value of the deal to Kuwait.

December 23 to December 27) In coordination with the Department and NSC, Post contacted senior members of the GoK and the Kuwait Petroleum Corporation. These efforts included the December 24 delivery of a letter from DepSec to Kuwaiti Foreign Minister Sheikh Dr. Mohammed Al-Sabah. Sustained efforts over subsequent days to arrange a high-level telcon were unsuccessful.

December 25) Several Kuwaiti newspapers published a statement from Dow defending the deal.

December 28 - Kuwait's Cabinet reviewed the Supreme Petroleum Council decision to authorize the K-Dow JV and 'citing the ongoing economic crisis' instructed the SPC to take the necessary steps to cancel the deal "without harming the interests of the state." The same day the SPC issued a statement announcing its decision to cancel the deal.

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KUWAIT 00001259 003 OF 003

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